



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Vail Unified School District No. 20

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 26, 2006

Governing Board
Vail Unified School District No. 20
P.O. Box 800
Vail, AZ 85641-0800

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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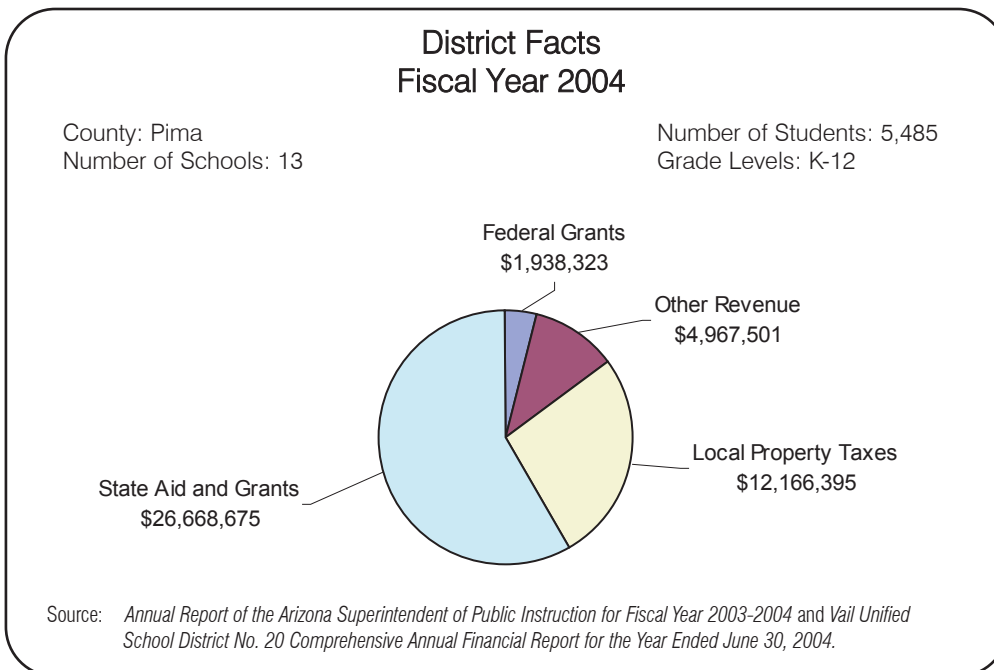
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INTRODUCTION

Vail Unified School District No. 20 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for more than \$45 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the Uniform System of Financial Records (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

The District may not have received the best value for the public monies it spent, as it did not always follow competitive purchasing requirements.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or USFR guidelines. For example, the District did not always issue invitations for bids for purchases that required them. In addition, the District did not always give adequate notice of invitations for bid, retain evidence that it time- and date-stamped bids and proposals received, and did not state on the requests for proposals that the proposals would be available for public inspection after award. Further, the District did not have the Governing Board determine in writing that the use of competitive sealed bidding was either not practicable or not advantageous to the District before issuing requests for proposals.

Additionally, the District did not always obtain oral or written price quotations for purchases that required them. Further, when price quotations were obtained, for one purchase the actual cost exceeded the price quoted by approximately \$13,000.

Recommendations

To strengthen controls over purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Issue invitations for bids or requests for proposals, as appropriate, for purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689.
- Have the Governing Board determine in writing that the use of competitive sealed bids is either not practicable or not advantageous to the District before making purchases using competitive sealed proposals.
- Include all information required by School District Procurement Rules in the invitations for bids and requests for proposals and retain all supporting documentation.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689, and oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations. If a vendor is selected for reasons other than the lowest quotation, the District should document in writing the reasons for such selection.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than lowest cost are appropriate.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. To achieve this objective, management should ensure that its accounting records are accurate and complete. However, the District did not fully accomplish this objective. Specifically, expenditures were not always recorded in the fiscal year goods or services were received. Additionally, personnel files did not include documentation supporting the fund from which employees were paid. The District also did not prepare or retain documentation supporting journal entries. Further, the District did not properly carry its Classroom Site Funds budget balances forward from the prior year. In addition, the District had a negative cash balance in its Insurance Proceeds Fund at year-end.

The District incorrectly recorded over \$258,000 of fiscal year 2004 expenditures in fiscal year 2005.

Recommendations

To help ensure that the District's accounting records are accurate and that financial information is properly reported, the District should:

- Record expenditures in the fiscal year in which the goods or services are received.
- Prepare and retain documentation to support the account distribution of payroll expenditures.
- Prepare and retain documentation to support all journal entries.
- Carry forward the unexpended budget balances in each of the three Classroom Site Funds in accordance with Arizona Revised Statutes.
- Ensure sufficient cash is available before authorizing expenditures from cash-controlled funds.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance

records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District's student enrollment forms did not always include the student entry date, and the enrollment forms of students who were previously enrolled in the District did not include current-year enrollment information.

The District did not submit membership and absence information until after the 100th day of attendance instead of every 20 days as required by ADE.

Additionally, withdrawal dates recorded in the District's computerized attendance system did not always agree with the student withdrawal forms, and withdrawal forms were not always completed. Also, the District did not always document the date student entries and withdrawals were entered in the computerized attendance system. Finally, the District did not submit student membership and absences to ADE every 20 days as required by ADE.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should record and report attendance in accordance with ADE's *Instructions for Required Reports*. The District should prepare and retain documentation to support amounts reported to ADE and ensure that student information is recorded and reported accurately by having a second employee verify that the entry and withdrawal dates recorded in the attendance records agree with the entry and withdrawal forms. Additionally, the District should prepare an Official Notice of Pupil Withdrawal form for each student who withdraws during the school year. The District should also indicate the date that entry and withdrawal forms are entered into the District's computerized attendance system to ensure that students who have entered or withdrawn from the District are properly counted. Entries and withdrawals should be entered in a timely manner to ensure that the students' enrollment status is accurately reflected in ADE's Student Accountability Information System. The District should adopt procedures to submit membership and absence information to ADE at least once every 20 school days, as required.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District should improve its controls over cash

Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. However, the District did not have adequate controls over its cash. Specifically, the District did not separate cash-handling and recordkeeping responsibilities over the community schools' cash receipts. Additionally, the District did not always document sales for reconciliation to cash collected as it did not always issue prenumbered cash receipts, reconcile receipts issued to cash collected, or count items. Further, the District did not always ensure that sufficient cash was available in student club accounts before approving purchases and did not always ensure that such purchases were appropriate.

Recommendations

To help strengthen controls over its cash, the District should separate cash-handling and recordkeeping responsibilities among employees. The District should prepare, in duplicate, prenumbered and numerically controlled cash receipt forms for each cash payment received. Also, the District should prepare cash collection forms and sales reports to document and reconcile cash collections and tickets or items sold. A daily cash receipts summary should be prepared to provide a reconciliation of the amount of cash, checks, and warrants on hand to issued receipts. The District should prepare a Daily Sales Report and a Daily Cash Collections Summary, as applicable, in order to reconcile sales to cash collections and ensure that all monies are accounted for and deposited. Finally, The District should verify that student clubs have enough cash before approving purchases and that the purchases are appropriate student activity expenditures.

Sample forms and reports for cash receipts are on USFR pages VI-F-11, X-G-17, and X-G-20 through 22.

The District should strengthen controls over capital assets

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not accomplish this objective. Specifically, the District did not include tag numbers or serial numbers for the majority of items on its capital assets and stewardship lists. In addition, some items on the stewardship list could not be located on the District's premises, and some assets on the District's premises were not included on the stewardship list.

The District did not adequately safeguard its capital assets.

Recommendations

The following procedures can help the District strengthen controls over its assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Maintain a current and complete capital assets list that includes items costing \$5,000 or more with useful lives of 1 year or more. Include all required information for each item on the list.

USFR pages VI-E-2 and 3 describe the information that should be included on the capital assets list.

- Maintain a current and complete stewardship list that includes items costing between \$1,000 and \$5,000. Include all required information for each item on the list.
- Affix a permanent tag with an identifying number to each item costing \$1,000 or more, or specifically identify the asset on the list by some other means, such as a serial number. Tags should be prenumbered, numerically controlled, and sequentially issued.